APPENDIX 1

MORAY COUNCIL

MEDIUM TO LONG TERM FINANCIAL STRATEGY

2021/22 – 2029/30

NOVEMBER 2019

CONTENTS

1 INTRODUCTION

1.1 A medium to long term financial strategy is essential to ensure that the challenges the Council faces in terms of managing its budgets are addressed in the most effective way. The intended outcome of the financial strategy is a sustainable financial plan, with planned revenue expenditure met by budgeted revenue income, with use of reserves to balance the budget kept to a minimum and targeted towards transformation of council services. The outcome of the strategy will be monitored through a range of measures including scrutiny of in year net expenditure through the council's established programme of budget monitoring; tracking progress of the Improvement and Modernisation Programme and reporting on Benefits Realisation of transformation projects, and by keeping the balance of expenditure across services under review, to ensure that the strategic direction of spend is maintained over the medium term. Health check Performance Indicators are detailed in Section 6 of this Strategy.

1.2 The Financial Strategy is a companion document to the (draft) Corporate Plan and sets out how the Council aims to fund achievement of the priorities expressed in the Corporate Plan and the Local Outcome Improvement Plan (LOIP).

{Insert table providing overview of these priorities}

1.3 The financial strategy will:

- Highlight the key cost drivers and drivers of change for the Council's service delivery
- Outline the Council's high level financial position over the years 2020/21 to 2029/30, based on a range of assumptions across different scenarios
- Facilitate planning ahead to enable the impact of change to be managed more proactively and effectively
- Plan for a sustainable revenue budget and capital investment programme which will support the Council's priorities and address the key issues for Moray
- Assist in increasing the people of Moray's understanding of the Council's financial position and the challenges facing it over the next ten years.

1.4 The strategy covers the period 2020/21 to 2022/23 in detail and provides very high level estimates for 2023 to 2030. Following the UK Government Spending Review in 2018, which announced that a three year forecast would be produced in 2019, the Cabinet Secretary for Finance, Economy and Fair Work announced that he would follow suit. As the UK Government Spending Round on 4 September was for 2020/21 only it is unlikely that the Scottish Government will announce figures for the longer term. Consequently there is considerable uncertainty about the council's budget position even in the early years of the strategy.

1.5 The key challenge for the strategy is identifying the approach which the Council must take to achieve a sustainable financial position, with balanced budgets in future years. It is unclear what the future holds for local government finance in Scotland, but it is clear that the Council cannot continue to do all that is currently does in the same ways as it traditionally has. To that extent the financial strategy is dependent on a programme of business transformation; service prioritisation and redesign, and reduction in service delivery. Underpinning this is a direction of travel which looks to target resources at greatest need and to shift away from a universal provision of services.

1.6 The Community Empowerment agenda is also central to the programme of transformation, with an expectation that local communities will take the lead in some areas in which traditionally the council has led. The Council has been committed to Community Asset Transfer (CAT) for many years and in 2018 successfully promoted CAT of town halls and some community centres as part of its budget setting process for 2018/19, a process in which the public were consulted through a variety of channels to establish community priorities for service delivery. The Council is currently developing its Participatory Budgeting (PB) Charter and process, in conjunction with community groups. The strategy recognises the need for the Council to invest further in this process if it is to achieve its aims.

1.7 The strategy must also allow for investment in the Council's asset base, appropriately directed towards meeting national and local priorities in a planned fashion, in accordance with the Local Development Plan, Asset Management Plans and associated infrastructure planning. Although the Council has a clear need to reduce its asset base, continued economic development in Moray requires appropriate infrastructure and facilities and so overall a reshaping and repositioning of the asset base is required and this must be accommodated within the capital plan.

1.8 The strategy will be reviewed annually as part of the Council's financial planning process, with regular updates of the medium term position reported to the Corporate Management Team on a monthly basis and to the Policy and Resources Committee on a quarterly basis.

1.9 Moray Council is not alone in facing significant financial challenges. The approach towards savings and service transformation which the Council is advocating is one which can be seen across Scottish local authorities. One of the tools used in developing the Strategy has been horizon scanning / peer review, to ensure that ideas for change developed in other local authority areas are considered for use in Moray, where appropriate.

1.10 The inclusion of information in the Strategy does not imply approval. All financial estimates are subject to approval by Council as part of the budget setting process.

1.11 The scope of this Financial Strategy is the Council's General Fund. The Council's Housing Revenue Account (HRA) is ring-fenced, according to statutory requirements, and consequently financial planning for the HRA is a separate exercise from financial planning for the Council's other services and is managed through a series of strategies developed solely for this service area such as the Strategic Housing Investment Plan.

2 ECONOMIC, SOCIAL AND ENVIRONMENTAL CONTEXT

2.1 The national context

Global Economy

2.1.1 The global economy has been slowing, with a downturn in the United States, Eurozone and UK economies. Forward-looking economic indicators strongly suggest a weaker outlook for economic growth. In the UK, uncertainty over Brexit is a key factor, but the Eurozone is also showing signs of economic downturn, particularly in German manufacturing, and the US and China trade position has wide ramifications. This is reflected in the fall in bond prices, with US treasuries and UK gilts generally on a downward trajectory and German bunds at a negative yield.

2.1.2 The value of bonds directly impacts on the Council's financial position, as Public Works Loans Board (PWLB) loan interest rates are linked to the yield on Treasury gilts.

Scottish Dimension

2.1.3 The economy also has an indirect impact on the Council, as a downturn in the Scottish economy will reduce the Scottish tax take and with this the level of funding which Scottish Government has available. The first estimate of Scottish tax take was higher than actually achieved. The assumptions used to estimate the Scottish tax take have been refined and future estimates are expected to be more accurate but clearly this is not an exact science.

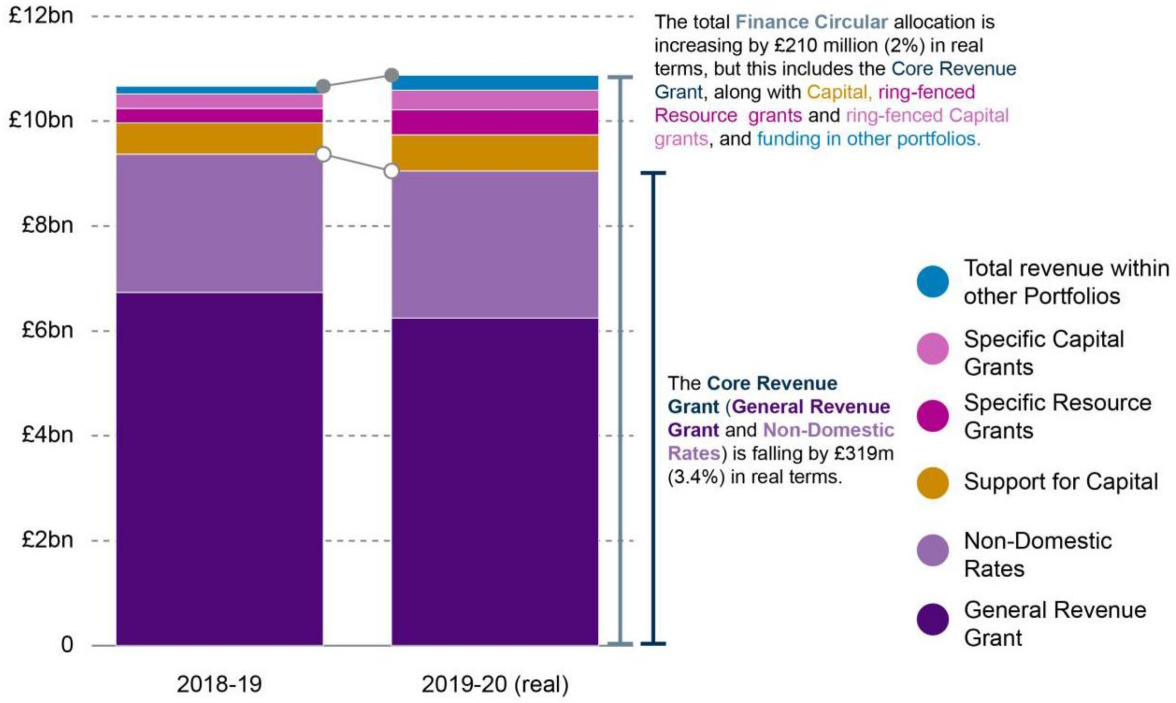
Brexit

2.1.4 Further uncertainty for both UK and Scottish economies arises from Brexit, with timing and conditions of Brexit – and indeed whether Brexit will happen – still undecided, and the ramifications for business and for the amount and pattern of central government spend unclear.

Scottish Government Policy Control

2.1.5 Scottish Government's medium term financial strategy, published in autumn 2018, indicates a reduction in core local government funding as a result of protecting NHS and Police Scotland funding and increased ring-fencing for Scottish Government initiatives.

2.1.6 The impact of increased ring-fenced funding was presented by SPICe in their report Local Government Facts and Figures 2013/14 to 2019/20



2.1.7 COSLA in their response to the Local Government and Communities Committee pre-budget scrutiny also drew attention to areas where Scottish Government priorities are not funded through ring-fenced funding but where there are still explicit constraints on local government and / or funding is tied to new duties. Audit Scotland captured the impact of new duties on local government in 2019/20 in the following diagram:

Source: Audit Scotland, Local Government finance circular 2/2019, Scottish Budget 2019/20

2.1.8 The diagram does not include other protected budget areas such as the Scottish Welfare Fund and teaching staff posts. COSLA estimate that 61% of local government expenditure is protected by Scottish Government or committed under PPP funded initiatives or as a result of borrowing to fund capital expenditure in prior years.

Insert pie chart showing Moray situation for 2019/20.

Other Impacts

2.1.9 There are other decisions made at a national level which directly or indirectly impact on the Council's costs. Pay awards are a key area where the Council has no control over the awards negotiated for Council staff. The Living Wage is also set centrally. The UK Government sets the discount rate used in calculating the liabilities of unfunded pension schemes – for the Council that means the cost of teachers' pensions.

New Fiscal Powers

2.1.10 Scottish Government is introducing measures which allow an element of local discretion in raising revenue (Workplace Parking Levy, Transient Visitor Levy). The extent of these new powers and how they will work has yet to be set out in detail. A further addition to local funding is the devolution of income from the Crown Estate. The first tranche of income has been announced. It has been ring-fenced by Scottish Government for use in coastal communities. The Workplace Parking Levy may be ring-fenced for transport projects, and there has been discussion of the Transient Visitor Levy being ring-fenced for expenditure related to tourists. The extent to which these additional measures will assist in meeting the shortfall in core funding is therefore unclear at present, although it is likely that some of this income could be used to offset some elements of core spending. Non Domestic Rates (NDR) empty property relief may also be devolved to local authorities.

Environmental Issues

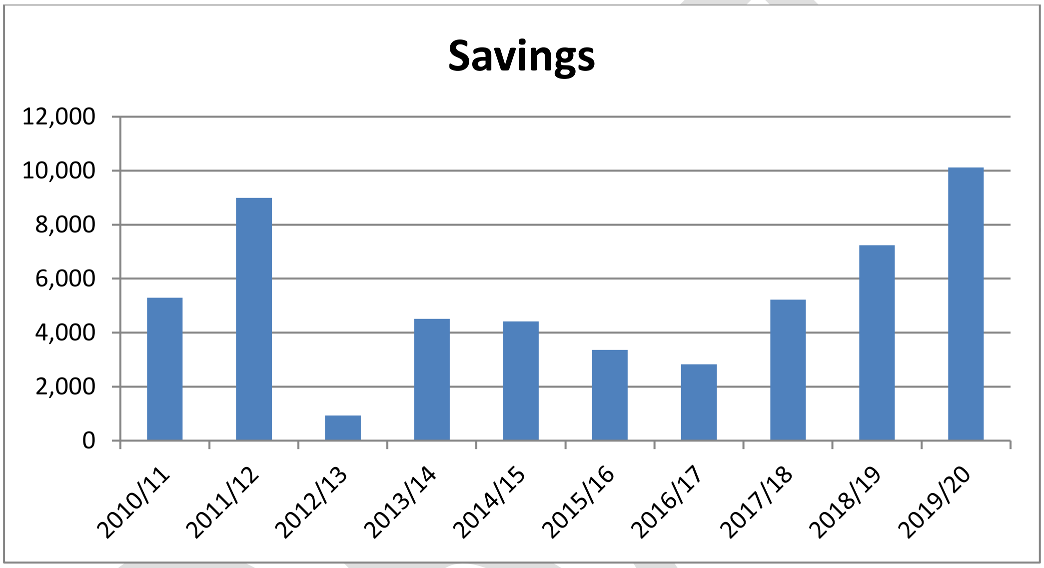
2.1.11 Matters of national concern such as climate change and carbon emissions are echoed at a local level. The response to such issues will vary in the local context and can be influenced by local decisions and priorities, although these are areas where central policy – such as the ban on landfill and commitment for Scotland to become carbon neutral by 2032 - will also dictate action at a local level. Funding to support the Scottish Government's climate change objectives is not yet clear.

2.2 The local context

2.2.1 Background

The Council has been making savings year-on-year since 2010/11. To date these have largely been based on service efficiencies and service reductions with savings growing for the past 3 years and particularly significant savings taken in 2019/20. As the Improvement and Modernisation Programme continues to develop, the focus will shift to transformational change. Until those savings start to be generated at scale however, there are challenges in developing further savings from efficiencies. As a result, service reduction will inevitably require to form a major strand of the Council's approach to balancing its budget in the short term to medium term.

(savings are shown in £000s):



2.2.2 Demographics

Moray's population has grown over the past 10 years and is forecast to grow by 4.4% over the period 2016 to 2026. This contrasts with an average projected population growth for Scotland as a whole of 3.2%. Moray also has an above the Scottish average projected change in the number of households over the period 2016 to 2041. Moray's population is aging, with life expectancy and healthy life expectancy for both men and women above the Scottish average. However, primary and secondary schools rolls are projected to increase, in numbers and also as a percentage of the projected total of all Scottish school rolls. This will impact on demand for services and also on grant support from Scottish Government under the present method of allocating general revenue grant.

2.2.3 Economy

Moray is a low wage economy. The features of the local economy have been well documented by the Moray Economic Partnership and are set out in detail in Moray Economic Strategy. A key strand in current planning for economic development is the Moray Growth Deal. Following agreement on Heads of Terms expected in 2020, detailed modelling will be required to reflect the Moray Growth Deal in the Council's budget processes and plans.

2.2.4 Infrastructure

Moray's population is concentrated in Elgin, with four major satellite towns and large areas of dispersed rural communities. This influences how services are delivered and underpins the need for investment in roads infrastructure for connectivity and also to facilitate the movement of goods for export, which forms a significant part of the Moray economy.

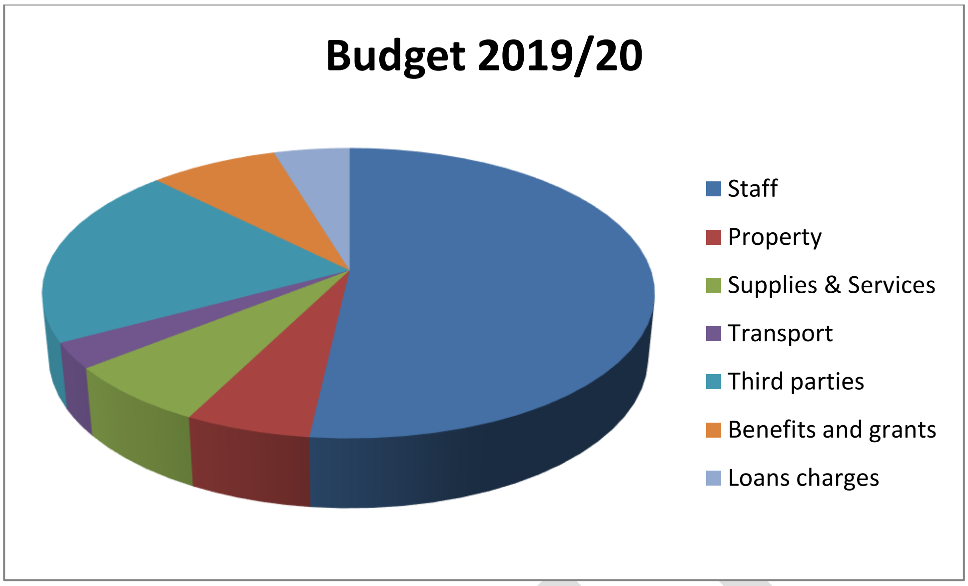
2.2.5 Learning Estate

The condition of the schools in Moray is the worst in Scotland. There has been recent investment in two new secondary schools in Elgin and a new primary school in Keith. A new secondary school in Lossiemouth is under construction. Four primary schools – in Elgin. Lossiemouth and Buckie – were significantly refurbished. Despite this the overall condition of the school estate is poor. The improvement of the school estate as part of the agenda to improve educational attainment is one of the Council's key priorities.

3 COST DRIVERS AND PLANNING ASSUMPTIONS

Cost Drivers

3.1 The Council's budget of £280 million gross revenue expenditure for 2019/20 includes £145 million for staff. Pay awards and pension costs are key cost drivers for the Council. Pay awards agreed in the course of 2018/19 were multi-annual, covering the period 2018 to 2021.



3.2 A significant proportion of the Council's services are out-sourced, with 20% of the Council's expenditure being on services delivered by third parties. The procurement process therefore has a strong influence on the costs borne by the Council. Significant savings have been made by procurement (on the purchase of supplies and services as well as on out-sourced services) and the Council has a target of 3% procurement savings on relevant ie local (influenced by the Council) contracts.

Over half of the Council's out-sourced services are social care services. The provision of health and social care is done by NHS Grampian and the Moray Council under the direction of the Moray Integration Joint Board. The Council therefore has no direct control over the strategic delivery of social care services. This continues to present a significant risk for the Council in terms of budget management.

Planning Assumptions

3.3 As recommended in CIPFA guidance on the development of medium to long term financial plans, the Council looks at the financial implications of various scenarios, allowing the Council to assess the financial impact of various key drivers of change on cost. The main cost drivers used in constructing outline scenarios for budget setting for the last two years have been staff pay awards, grant support from Scottish Government and level of capital expenditure.

3.4 This financial strategy incorporates consideration of these and other key variables which may impact on the Council's financial position going forward.

3.5 The rationale behind the Optimistic, Mid-range and Pessimistic assumptions for each cost driver are set out below:

3.5.1 Pay awards have been agreed for 2020/21. Thereafter the assumptions used are that pay awards will be linked to actual inflation or to the government's inflation target, currently starting at 2%: optimistic is no real terms increase in pay, mid-range a 0.5% real increase, pessimistic a 1% increase. The optimistic assumption aligns with the low budget assumptions used by the Office of Budgetary Responsibility (OBR) and Scottish Government (as at April 2019). The mid-point aligns with the Scottish Fiscal Commissions prediction for wage inflation in 2020/21 (as a December 2018). The pessimistic case is lower than OBR' high assumption (3.5%) and Scottish Government's upper limit (4%) but has been chosen as it matches the three year pay award agreed for non-teaching staff for 2018-2021.

3.5.2 Capital expenditure is based on the current indicative 10 year plan presented to Council on 27 February 2019. This will be adjusted as a result on the work being carried out under the aegis of the Improvement and Modernisation Programme, specifically the review of stores, depots and offices ongoing in terms of the Property Asset Management Appraisal and the review of the Learning Estate. The Council currently has a budget for loan charges of £13.5 million. This is a long term commitment, but over time historic loans will be paid off. New borrowing increases the Council's liability to loans charges – at the current low rates of interest, by about £60,000 per million borrowed. There is a long-lead in time to many capital projects, and the range of assumptions for 2020/21 is consequently fairly narrow, allowing for slippage / savings of 10% (the capital plan for 2018/19 out-turned 9% under the final approved budget) at the optimistic end and, at the pessimistic end, an overspend of 2.2%.

3.5.3 Funding from Scottish Government, in the form of General Revenue Grant and Non Domestic Rates (NDR), is projected to be at best the same actual amount each year – generally referred to as "flat cash" - and at worst a cash reduction of 3%. The range of assumptions generated from a variety of sources – OBR, Scottish Government's Five Year Strategy scenarios for non-priority spend – earlier in the year have been overtaken by the UK spending plans for 2020/21 announced on 4 September 2019. This includes £1.1bn Barnett consequentials (of which around half relate to the NHS and which are likely to be passed on in full to NHS Scotland) which may give additional flexibility to Scottish Government.

3.5.4 Council Tax assumptions have been separated out into Council Tax percentage increase, growth in Council Tax base and Council Tax collection rate. The previous 3% capped percentage increase has been used as the mid-range. In 2019/20 Scottish Government allowed a real increase of 3% - ie a nominal 3% plus inflation, measured using the Consumer Price Index (CPI). The optimistic case is therefore shown as with 3% plus the UK government's target CPI of 2% A cap at inflation is shown as the pessimistic case. The level of growth currently projected is based on the projected growth of households in Moray from 2016 to 2014 per the Registrar General's Annual Review of Demographic Trends 2018. This tallies with the level of growth seen in recent year and is used as the mid-case with small percentage variations for the optimistic and pessimistic cases. Likewise the collection rate is set at the current level for the mid-case with small percentage variances for optimistic and pessimistic.

3.5.5 Inflation affects a small number of significant contracts – in particular the PPP schools contract – and also covers potential increases in utilities. The cost of utilities and fuel has been volatile over the past year, but the underlying trend is still forecast to increase above general inflation. Consequently the government target for inflation has been used as the optimistic scenario, with relatively modest increase for the mid-point and pessimistic scenarios, reflecting the current low inflation environment.

3.5.6 The employers' pension contribution is assessed every three years and is currently due for revision from 1 April 2021. A variety of issues are tending to increase the cost of pensions – in particular recent legal decisions – and the contributions for 2021/22 onwards will be dependent on the actuarial assumptions used when the fund is valued in December 2020. However, the North East Scotland Pension Fund is currently funded at 120% of estimated liabilities and informal suggestions are that a decrease in employers' contribution would not be unlikely. Given the informal suggestion of a decrease on contribution locally, the current contribution rate has been used as the pessimistic scenario, with reductions for mid-point and optimistic.

3.6 Ranges of budget assumptions used are set out in the tables below, with current planning assumptions noted:

Year 1 – 2020/21	Optimistic	Mid-range	Pessimistic
Pay award (Agreed for 2020/21)	3% £4.6m		
Capital Expenditure Loans pool rate Increase in loans charges	£48.42m 3.72% £1.63m	£53.8m 3.72% £1.73m (as current)	£55m 3.72% £1.8m
General revenue grant / NDR (all scenarios assume increased funding for teacher's pensions)	Flat cash (as current) (£0.32m)	Decrease 1.5% £1.71m	Decrease 3% £4.08m
Council Tax increase	5% (£2.41m)	3% (£1.28m) as current	2% (£0.85m)
Growth in Council Tax base	0.7% (£0.05m)	0.6% (£0.29m) as current	0.4% (£0.19m)
Council Tax collection rate	98.7% (£0.1m)	98.5% As current	98% £0.24m
Inflationary pressures	2% £0.4m (as current)	2.5% £0.5m	3% £0.6m
Pension contributions (NESPF) (Agreed for 2020/21) Teachers (Agreed for 2020/21)	19.3%		
Additional budget pressures currently noted, less opening position adjustment	£2.52m	£2.52m	£2.52m
Total budget pressure, to be added to budget gap	£6.27m	£8.49m	£12.8m

Year 2 – 2021/22	Optimistic	Mid-range	Pessimistic
Pay award	2% £3m (as current)	2.5% £3.8m	3% £4.6m
Capital Expenditure Loans pool rate Increase in loans charges	£31.28m £1.4m	£34.76m £1.56m As current	£35.52m £1.7m
General revenue grant / NDR	Flat Cash £0.29m	Decrease 1.5% £2.08m	Decrease 3% £4.75m
Council Tax increase	5% (£2.27m)	3% (£1.33m) as current	2% (£0.90m)
Growth in Council Tax base	0.7% (£0.23m)	0.6% (£0.3m) as current	0.4% (£0.19m)
Council Tax collection rate	98.7% (£0.1m)	98.5% as current	98% £0.25m
Inflationary pressures	2% £1m (as current)	2.5% £1.1m	3% £1.2m

Year 2 – 2021/22	Optimistic	Mid-range	Pessimistic
Pension contribution (NESPF)	17% (£0.20m)	18.3% (£0.10m)	19.3% As current
Additional budget pressures currently noted	£2.09m	£2.09m	£2.09m
Total budget pressure to be added	£4.97m	£9m	£13.5m

Year 3 – 2022/23	Optimistic	Mid-range	Pessimistic
Pay award	2% £3m (as current)	2.5% £3.8m	3% £4.6m
Capital Expenditure Loans pool rate Increase in loans charges	£32.86m £0.9m	£36.51m £1.1m (as current)	£37.31m £1.2m
General revenue grant / NDR	Flat Cash £0.29m	1.5% Decrease £2.34m	3% Decrease £4.61m
Council Tax increase	5% (£2.389m)	3% (£1.376m) as current	2% (£0.92m)
Growth in Council Tax base	0.7% (£1.01m)	0.6% (£0.31m) as current	0.4% (£0.19m)
Council Tax collection rate	98.7% (£0.11m)	98.5% as current	98% (£0.25m)
Inflationary pressures	2% £0.8 m (as current)	2.5% £1.1m	3% £1.2m
Pension contribution (NESPF)	17%	18.3%	19.3% As current
Additional budget pressures currently noted	£0.27m	£0.27m	£0.27m
Total budget pressure to be added	£2.5m	£6.92m	£10.52m

Years 4 - 10	Optimistic	Mid-range	Pessimistic
Pay award	2%	2.5%	3%
Capital Expenditure Loans pool rate Increase in loans charges	£34.161m £0.9m	£37.957m £1.1m (as current)	£38.79m £1.2m
General revenue grant / NDR	Flat Cash £0.290m	1.5% Decrease	3% Decrease
Council Tax increase	5%	3% as current	2%
Growth in Council Tax base	0.7%	0.6% as current	0.4%
Council Tax collection rate	98.7%	98.5% as current	98%
Inflationary pressures	2% (as current)	2.5%	3%

Years 4 - 10	Optimistic	Mid-range	Pessimistic
Pension contribution (NESPF)	17%	18.3%	19.3% As current

3.7 The above scenarios do not include consideration of growth in demand for services arising from demographic changes, except where included in budget pressures. Current medium term budget projections include some projections of growth in demand as budget pressures, but further work requires to be done in this area.

Capital

3.8 The impact of the Council's capital programme on revenue expenditure is included as a key variable in the assumptions above. The level of capital expenditure is a particularly tricky variable in terms of estimating the impact on revenue spend, as this is influenced by the level of capital grant or other external funding; the current cost of borrowing (which in turn depends on the interest charged on external borrowing and the extent to which the Council can fund capital by internal borrowing ie use of cash reserves); the expected life of the assets created, and the remaining cost of historic debt. The situation is further complicated by the need (Scottish Government requirement) to use a different method to calculate loans charges on new borrowing from 2021/22 onwards.

3.9 The Council's ten year Capital Plan is given a light touch review each year, with a thorough review at more infrequent intervals. Following Transformation work based on the Property Asset Management Appraisal and development of the Learning Estate Strategy a thorough review will be required. The Council's policy decision to move away from the Make Do and Mend policy, which has underpinned the capital plan in recent years, also requires such a review to enable appropriate work to be forward planned and commissioned. Work on the review will continue in 2020 as the variables described become clearer.

3.10 Expenditure on servicing debt to fund capital over the last five years is shown as a percentage of total net revenue spend in the graph below:

Insert graph, with current projections (based on current capital plan

3.11 The results of the Capital Plan review will be fed back into a revised Financial Strategy. The Council also prepares a Capital Strategy, updated annually, setting out an overview of the council's capital expenditure, capital financing and treasury management activity, its relationship to asset management and the governance arrangements for the Capital Programme.

4. THE BUDGET GAP

4.1 As noted in paragraph 2.2.1, the Council has been making year-on-year savings since 2010/11. However, a budget gap still remains, and historically the Council has not managed to fill that gap with savings. The budget gap for the past five years is set out below:

Insert bar chart showing budget gap and how much met from savings / reserves

4.2 The Council currently (2019/20) has a planned budget shortfall of £2 million. That shortfall will roll forward to 2020/21. The variables from the assumptions set out in 3.7 above serve to increase / decrease the budget gap. The current planning assumption used is shown in the first column – it sits between optimistic and mid-point.

2020/21 current planning assumption	Budget Gap £million	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
	Optimistic	8.27	4.97	2.50	2.23	2.92	1.85	1.37	1.14	0.88	0.63
9.541	Mid point	10.49	9.00	6.92	7.68	9.58	9.76	10.58	11.68	12.84	14.04
	Pessimistic	14.80	13.5	10.52	12.59	15.51	16.73	18.62	20.82	23.08	23.63

4.3 The above figures assume that each year's shortfall is met in full by savings. The budget gap is therefore not cumulative, but represents an annual savings target. If savings are not achieved in full in one year, the balance requires to be carried forward into the next year as an additional target to be met.

4.4 The Council has limited flexibility to fail to meet savings targets in any one year, as the Council's reserves are close to the minimum which require the be held under the Council's Reserves Policy. The Council must always carry some free reserves – reserves not ear-marked for a particular purpose – in order to be able to cope with unplanned emergency expenditure such as expenditure arising from severe weather. The Council assesses how much free reserve it needs, based on an assessment of the risks to which the Council is exposed.

4.5 One risk of particular note to which the Council is now exposed is the Council's liability to bear the cost of a set proportion of any overspend on the MIJB budget. The MIJB has no reserves and in reliant on NHS Grampian and Moray Council for funding. Any overspend is split between NHS Grampian and Moray Council, in proportion to the amount of funding which they pass to MIJB which is currently 61:39 NHS:TMC.

4.6 It should be noted that long-term financial planning is indicative and cannot be taken as an accurate prediction of the Council's budgetary requirements.

4.7 The steps the Council has taken to meet the budget gap are set out in the next section of this strategy.

5. THEMATIC APPROACH

5.1 The Council's need to reform services has been well known for some time, and a thematic approach to the issue has been taken, with the process now embedded in the Council's planning processes. This approach builds upon previous transformation programmes – Designing Better Services (DBS) and Digital Services – and started with a comprehensive categorisation of all Council services as to the scope and type of reform which was considered possible. This programme of review is also supported by Service Planning across the Council, and in particular by Workforce Planning, which is reported on annually to Policy and Resources Committee. The orderly reduction of staff numbers is facilitated by Workforce Planning and the Transform process.

5.2 Since 2017 the Council has applied a Reform Matrix to services, to identify potential reforms to service delivery to improve financial sustainability.

Reform Matrix

Transformation (Different service)	Centralise / amalgamate in-house; share services; outsource / commission; Arms length External Organisations (ALEOs) / Trusts
Redesign of service (efficiency – same service, leaner/ new approach	Digital services,; redesign jobs; streamline processes; rationalise asset base; simplify governance
Redefine services	Stop; reduce; community contribution / provision of services
Income generation and commercialisation	Charges, sponsorship, Council Tax, investment portfolio, new services to compete with private sector, sale of assets

From application of this matrix a range of measures or areas for development were identified and these form the basis of the Improvement and Modernisation Programme (IMP).

5.3 Development of the IMP took into account four key factors determining the importance to the Council of transforming service: statutory, reputational and political risk of failure to deliver a service at a particular level; Council priorities; the relative cost of the service / proportion of the Council's budget spent on that service and how well spend is controlled, and any other benchmarking information available and relevant.

5.4 The overall direction for the IMP was approved by Council on 12 December 2018. It currently consists of seven workstreams, which are being developed using the Council's approved project management governance procedures and documentation:

- Asset Management (Property Asset Management Appraisal)
- Customer Service (Digital, redesign)
- Alternative Service Delivery (Museums, Leisure)
- Internal Transformation (Flexible working, Management Structure, Governance)
- Income / commercial (Income maximisation, Sponsorship etc)
- Service Efficiency
- Transforming Education
- Transforming Children's Services

These are being refined and developed as projects develop. The update for 2019/20, to be reviewed annually, is as follows:

5.5 The Property Asset Management Appraisal estimated recurring revenue savings of £200,000 from this project. The first action will be the closure of Auchernack in 2019.

Depots and general office provision are also under review for rationalisation. Backlog maintenance requirements will be reduced and capital receipts generated from the disposal of properties. Further savings are anticipated from a restructure of the delivery of property services.

5.6 Work is ongoing to develop on the customer service and digital projects with a view to continuing to generate savings. Digital working was estimated to deliver savings of £250,000. School administration is being reviewed and potential savings from this have been identified.

5.7 The museums projects is small as it relates to the Falconer Museum only. Savings are included in the target for 2020/21. The Leisure review is potentially a more financially significant project but the scope for savings is still under development at this stage.

5.8 The first and second tier management review has been reported, with savings of £0.2 million. There is a cross-over between this review and the review of property services being carried out under the aegis of Asset Management. The related governance review is underway.

5.9 A Commercial officer has been appointed to drive forward the income generation and commercialisation agenda and it is considered that there is the prospect of additional income being generated from 2020/21 onwards.

5.10 Service efficiencies for cleaning, waste collection and street sweeping have been budgeted for. Service efficiencies from the new HR/Payroll system are anticipated.

5.11 Transformation of education and children's services are anticipated to be the areas where significant savings are most likely to be found. Work has commenced on reviewing Additional Support Needs (ASN) and current (early) indications are of savings commencing in 2020/21 and full year effect in 2021/22. Benchmarking of the cost of Looked After Children shows spend per capita in Moray to be above the Scottish average for both residential and community based placements, and a high proportion of Looked After Children in residential settings. As an indication of potential savings from reform in this area, a move towards comparator authority averages for proportion of Looked After Children in community settings could generate annual savings of £3 million.

Funding for Change

5.12 The Council has budgeted for significant resource to be spent on IMP / transformation, in recognition of the timescales required for transformation change and the need to free up officer time to send on this. Projected capital receipts of £2.5 million are budgeted to be utilised for service transformation over the three year period for which Scottish Government granted flexibility for the application of capital receipts. In addition to this, the Council has ear-marked £2.7 million reserves for transformation / council priorities and budget to spend a further £0.5 million in 2019/20 and £0.9 million in 2020/21 on investment in change. The total "war chest" for transformation is therefore £6.6 million.

5.13 Community Empowerment has been a key part of the Council's transformation agenda and good progress is being made with the transfer of town halls to community groups. Work will continue with our communities looking at areas where community groups could be approached to deliver services which traditionally have been delivered by the Council.

5.14 Continued work on the IMP will establish more firmly the level of savings which this Programme can be expected to generate. Whilst this will be the focus of work on financial sustainability in the near future, further work will be developed to complement the IMP and supplement savings which might be generated. Such work is likely to include:

- Further definition of what can be considered to be the core level of service offered by the Council in all areas, which the aim of reducing to the core, discontinuing or transferring to the community services which are not priorities for the Council or Scottish Government;

- Enforcing specific efficiency targets across the Council – eg absorption of growth in demand, procurement savings targets, energy or carbon efficiency targets
- Constraints on capital expenditure for non-priority services.

5.15 Meanwhile work will continue in other areas which will help to reduce the budget gap including:

- Moray Growth Deal – the deal is expected to bring in excess of £100million of investment to Moray, creating skills, jobs and infrastructure to stimulate the economy
- Consideration of devolved funding streams such as Empty Homes Relief and Transient Visitor Levy
- Shared services and partnership working

6. PERFORMANCE MONITORING AND INDICATORS

6.1 Budget monitoring is an embedded feature of the Council's performance monitoring regime, and transformation projects are reported on to committee and to Transformation Boards. The detail of medium to long term financial planning – by virtue of the scale and amount of numbers - can obscure the impact of decisions and make it difficult to judge what progress is being made. Accordingly, it is proposed that a small suite of performance indicators (PIs) is used as a health check for progress on the financial strategy.

6.2 The Council has been reducing its reliance on the use of reserves to fund core expenditure. It is proposed that this becomes a Financial Strategy PI. The PI proposed is £m reserves required to fund recurring expenditure and also that amount as a %age of recurring expenditure, to be reported on as both budget and actual.

Use of reserves (recurring spend)

	Budget		Actual	
	£m	%age	£m	%age
2018/19	4.726	2.4%	3.787	1.9%
2019/20	2.094	0.97%		

6.3 The Council's Corporate Asset Management plan for 2019/20 includes as an action the development of a PI to measure the proportion of general fund expenditure being used to service debt. Loans repayment and interest as a percentage of total general fund expenditure will be reported and benchmarked against other Scottish local authorities.

6.4 Budget pressures for future years will be highlighted. The percentage of budget pressures against the total planned general fund for each year will be reported and the make-up of the total budget pressure by department analysed.

6.5 The percentage of IMP savings which have proceeded to approved mandate against total savings target for each will also be used as a financial Strategy PI.

6.6 These PIs will be reported to CMT on a monthly basis and to Policy and Resources Committee or Moray Council when quarterly budget monitoring reports are made and as part of the year end variance report.

7. CONCLUSION

7.1 The financial environment for local Government continues to be extremely challenging with many unknown variables. Whilst this makes it very difficult to forecast ahead, the uncertainty strengthens the need to develop a medium to long term financial strategy to unsure that the Council is aware of potential scenarios and can take decisions with long-term consequences in the context of an awareness of issue which may lie ahead.

7.2 The strategy encompasses consideration of the key variables affecting the cost of the Council's services, including the cost of capital expenditure. Work continues to be required to model the impact of changing demand for the Council's services.

7.3 The strategy is written in the context of work being carried out to transform the way in which the Council delivers its services. The work requires to continue and will be supplemented by continued review of level of service and opportunities to generate income in order to balance the Council's budget now and in the future, on a sustainable model of service delivery for the people of Moray.